

#### Members

Sen. Joseph Harrison, Chairperson  
Sen. Thomas Weatherwax  
Sen. Allie Craycraft  
Sen. Larry Lutz  
Rep. Terry Goodin  
Rep. Thomas Kromkowski  
Rep. Larry Buell  
Rep. Richard Mangus  
Clarke Davis  
Steve Meno  
William Gettings, Jr.  
Connie Lux



# PENSION MANAGEMENT OVERSIGHT COMMISSION

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Authority: IC 2-5-12-1

## MEETING MINUTES<sup>1</sup>

Meeting Date: September 28, 2001  
Meeting Time: 10:30 A.M.  
Meeting Place: State House, 200 W. Washington St.,  
Room 130 State House  
Meeting City: Indianapolis, Indiana  
Meeting Number: 1

Members Present: Sen. Joseph Harrison, Chairperson; Sen. Thomas Weatherwax; Sen. Allie Craycraft; Sen. Larry Lutz; Rep. Terry Goodin; Rep. Thomas Kromkowski; Rep. Richard Mangus; Steve Meno; William Gettings, Jr..

Members Absent: Rep. Larry Buell; Clarke Davis; Connie Lux.

The Chair, Senator Joseph Harrison, called the meeting to order at 10:45 a. m. He introduced the members of the Pension Management Oversight Commission (PMOC) and the staff. Senator Harrison reviewed the agenda for PMOC. Senator Harrison called upon Ms. Mary Beth Braitman of Ice Miller, outside counsel for both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF).

### 1. PERF/TRF Administrative Changes

Ms. Braitman distributed two documents to the PMOC. Exhibit A is the *PERF/TRF Presentation of Issues* to PMOC; Exhibit B is *Retirement Savings Legislation Included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (the Act)*. In her presentation, Ms. Braitman told the PMOC that the Act presents opportunities and additional flexibility to PERF and TRF members at no cost to participating employers.

#### (A) Rollover Accounts

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

One of the opportunities Ms. Braitman discussed was the issue of rollover accounts. Currently, rollovers from Code Section 457 governmental plans, 403(b), and IRAs may not be made into qualified retirement plans, such as PERF and TRF. Ms. Braitman told the PMOC that the Act amended federal tax law to permit rollovers from governmental 457 plans, 403(b) plans, and IRAs. She noted that the PMOC could consider amending Indiana retirement statutes to permit PERF and TRF to accept rollovers from all permissible retirement savings vehicles. She said that these funds would be put into “rollover accounts”, similar, but separate from members’ Annuity Savings Accounts (ASAs). Ms. Braitman said that the rollover accounts could be invested in the alternative funds that are available for investment of ASAs.

#### (B) Purchase of Service with IRA, 403 (b), 457 Rollover

Ms. Braitman noted that currently, service purchases cannot be made using rollover from a 457, 403(b) or IRA. She added that the Act amended federal tax law to accept a rollover from an IRA, 403(b), or 457 plan and to use it to pay for the cost of service purchases. Ms. Braitman said that the PMOC could consider legislation that would permit members to rollover funds from an IRA, 403(b), or 457 plan into PERF or TRF in order to purchase service.

#### (C) Service Purchase Via Trustee to Trustee Transfer from 403(b) or 457 to Purchase Certain Type of Service

Ms. Braitman mentioned that currently, qualified retirement plans are unable to accept direct trustee-to-trustee transfers from a 403(b) or 457 plan. Ms. Braitman said that a trustee-to-trustee transfer is a transfer that does not require a separation of service or other ‘distributable event,’ unlike a rollover. Ms. Braitman said that the PMOC could consider legislation that would permit PERF and TRF to accept direct transfer-to-transfers from 403(b) or 457 plans to purchase permissive service.

#### (D) Permit Purchase of Additional Years of Service

Currently, PERF and TRF members may purchase prior military and out-of-state service, according to Ms. Braitman. She also said that TRF members may purchase in-state teaching service. Many other states permit retirement fund members to enhance their retirement benefits by purchasing additional service credits. Ms. Braitman said that the PMOC could consider permitting members to purchase additional years of service. Specifically, after ten years of vested Indiana service, PERF and TRF members could purchase one year for every five years of actual Indiana service. Members would pay the actuarial cost of the service.

## **2. Other PERF/TRF Administrative Changes**

#### (A) Expressly Permit Joint Investment of Funds of PERF and TRF

Ms. Braitman reported that current statutes permit PERF to invest jointly the assets of the 1977 Police Officers’ and Firefighters’ Fund together with other PERF-administered pension funds. There is no statute permitting PERF and TRF to invest their assets together, or to enter into investments with other entities. Ms. Braitman continued by saying that PERF and TRF have similar investment structures and purchase similar investment assets. She also said that permitting PERF and TRF to invest jointly their assets could allow the Funds to enter into arrangements at lower costs to the Funds.

Ms. Braitman related that the PMOC could consider legislation that would permit the Funds to invest jointly their assets, solely for investment purposes with each other’s assets, as well as the assets of other investors. She said that this would allow PERF and TRF to obtain lower pricing on assets in some cases and to participate in certain investments that use pooled

assets.

(B) Revise Purchase of Prior Service Rules for Certain 1977 Police Officers' and Firefighters' Fund Units

Ms. Braitman stated that funds which enter the 1977 Police Officers' and Firefighters' Fund are limited to purchasing enough prior service so that members of that unit can attain 20 years when they reach the earliest retirement age in effect at the time of their entry into the 1977 Police Officers' and Firefighters' Fund.

The issue is that certain units which entered the Fund when the earliest retirement age was 55 would not prefer the option to consider purchasing additional service, so that their members can retire with 20 years at age 52, the earliest retirement age currently in effect.

Ms. Braitman indicated that the 1977 Fund Advisory Committee has reviewed this issue. She said that the PMOC could permit cities that entered the 1977 Police Officers' and Firefighters' Fund when the earliest retirement age was 55 to be able to purchase prior service back to the current earliest retirement age (now 52).

(C) Permit Members Who are Age and Service Eligible for a Pension to Withdraw Annuity Savings Account (ASA) to Purchase Service

Ms. Braitman said that under current law, PERF and TRF members may use all or part of the member's creditable service with the Funds to purchase service in another system's plan. However, members who have worked in Indiana long enough to vest in a benefit plan are unable to withdraw their ASA, Ms. Braitman noted.

The issue, as described by Ms. Braitman, is that some members of the Funds have moved out of Indiana to take an out-of-state position, and later wish to use Indiana ASA funds to purchase prior service in their new state system.

Ms. Braitman commented that the PMOC could consider an amendment that resolves the conflict between these two provisions by giving Fund members the right to forfeit their right to an Indiana pension benefit and to withdraw their ASA in order to purchase service in another retirement system.

(D) Addition of Dental, Vision, and Long-Term Care for TRF Members

Ms. Braitman told the PMOC that TRF currently has the authority to arrange for health care coverage for its retirees. She also said that the TRF is considering long-term care, vision, and dental coverage in a similar manner. Ms. Braitman said that the PMOC could consider an amendment that adds the authority to enter into agreements to provide these services.

In response to questions from PMOC members, Ms. Braitman said that rollover funds could not be part of the Guaranteed Fund, one of the investment options for PERF and TRF members. In response to cost associated with the purchase of additional service, Ms. Braitman referred the question to Mr. Doug Todd, actuary for PERF. Mr. Todd said that there would be no additional cost because the purchase would be at full actuarial cost to the members. In response to a Commission member's question regarding investment performance of both PERF and TRF, Ms. Braitman said that the Funds will be providing a report to the PMOC at their next meeting on their respective investment performance.

The Chair next recognized Dr. William Christopher, Director of the TRF. In his comments, Dr. Christopher said he supports the changes as presented by Ms. Braitman. He said that most

other state teacher funds are making similar changes. Dr. Christopher said that he believes these changes would improve teachers' futures at no cost to the state or to the TRF. He noted that the TRF investment performance is comparable to its peers. Pooling of funds would reduce management costs and the changes would help retain teachers in Indiana. In response to a PMOC question, Dr. Christopher said that he did not think that any of these changes would increase early retirements, but will help those close to retirement and provide better benefits for those who retire. PMOC member Representative Goodin, a School Superintendent, supported Dr. Christopher's statements.

Senator Harrison then recognized several individuals who spoke on the issues presented. Mr. Tom Miller, President of Professional Firefighters Union of Indiana, said he supports the proposals as presented by Ms. Braitman. He also said that he wants to discuss DROP plans at the next meeting. DROPs are Deferred Retirement Option Plans. Mr. Matt Brase, Indiana Association of Cities and Towns, thanked the PMOC for its past help. He said that he wants to look at the line-of-duty death benefit at the next 1977 Advisory Fund meeting. Mr. Christopher Scott, Pension Secretary of the Porter Police Department, said that he supports amendments to IC 36-8-8 to allow additional purchase of service credit to lower retirement age. Mr. Ed Gohmann, Chief Legal Counsel for PERF, said that he seconds the comments made by Dr. Christopher and supports flexibility and portability changes at no cost to the Funds. Mr. Steve Moberly, Executive Director of the Indiana Retired Teachers Association, said that the proposed changes will not affect those already retired. He suggested an additional military service credit for retirees.

PMOC member Representative Kromkowski, requested that PMOC look into County Coroners' participation in PERF. Senator Harrison said that there would be research done on this subject for the next meeting.

### **3. State Police Issues**

Senator Harrison recognized Mr. Steve Buschmann, representing the Indiana State Police Alliance (ISPA). In his presentation, Mr. Buschmann addressed a Cost of Living Adjustment (COLA) for the State Police and the State Police Disability Plan.

#### **(A) Cost of Living Adjustment (COLA)**

Mr. Buschmann said that each year, or biennium, the General Assembly enacts legislation that grants a percentage COLA (sometimes including a thirteenth check) for retirees of PERF, TRF, and Conservation and Excise Officers' pension. Mr. Buschmann told the PMOC that retired State Police troopers are not included in the state's COLA legislation and do not qualify for Social Security.

Mr. Buschmann distributed two documents: Exhibit C is a memorandum addressing State Police Pension Issues, and Exhibit D is a memorandum addressing the State Police Disability Program.

Mr. Buschmann then referred to HB 2085 from the 2001 Legislative Session. This bill would have provided a COLA to State Police troopers and a COLA to retired troopers under the Pre-1987 Plan who did not serve 20 years in the Department, but who would qualify for reduced pension benefits.

Mr. Buschmann told the PMOC that there are three significant issues that the ISPA would like to see addressed: 1) the treatment of retirees on the Pre-1987 Pension Plan who spent more than 20 years on the Department; 2) the inclusion of retirees in the Pre-1987 Pension Plan in

the standard PERF, TRF, Conservation and Excise COLA bill; and 3) the inclusion of retirees in the 1987 Pension Plan in the standard PERF, TRF, and Conservation and Excise COLA bill.

### 1) Treatment of Troopers Who Serve Longer than 20 Years

Mr. Buschmann requested that the PMOC look at an adjustment to the Pre-1987 Plan that would allow all troopers to qualify for the "Pioneer Benefit" each time the salary of a third year trooper increases.

### 2) Annual COLAs

Mr. Buschmann suggested the PMOC consider including the State Police in the annual COLA granted to members of PERF, TRF, and the Conservation and Excise Officers pensions in years where the salary of a third year trooper does not increase.

### 3) 1987 State Police Pension

Mr. Buschmann also requested that the PMOC consider including the State Police in the annual COLA granted to members of PERF, TRF, and the Conservation and Excise Officers pensions, with a cap on the COLA so that the appropriate percentage COLA would be multiplied against only that part of the pension benefit that is less than or equal to the highest pension benefit granted to a retiring officer classified as a trooper.

### (B) State Police Disability Plan

Mr. Buschmann next addressed the PMOC on the State Police Disability Plan. He said that the ISPA will submit a new disability plan after he confers with Ms. Braitman, outside counsel for PERF and counsel to the State Police for their pension plans. Mr. Buschmann said the IC 10-1-2-4 limits the provisions of the Plan to the following: 1) No monthly disability benefit can exceed the maximum basic pension (except line of duty disability entitles recipient to \$40 per month for each dependent child under age 18 and each dependent parent; 2) Time in disability counts to qualify for retirement; 3) Disabled employee must make pension contributions in the amount in place at time of disability. Mr. Buschmann said that all other provisions of the disability plan are non-statutory.

Mr. Buschmann referred to Exhibit D. In this exhibit, the present Indiana State Police Disability Plan is presented, along with the ISPA Proposed Disability Plan for the Pre-1987 Pension Plan and the ISPA Proposed Disability Plan for the 1987 Pension Plan. In addition, the local police and fire disability plan, administered by PERF, also is included, along with the 1977 Police Officers' and Firefighters' Disability Plan. Lastly, Mr. Buschmann presented the proposed ISPA Disability Program for new hires after July 1, 2002, and all prior hires who elect before July 1, 2002. He said that the ISPA seeks to accomplish several goals: 1) define the Disability Plan in statute; 2) differentiate between line of duty and non-line of duty disabilities; 3) provide a plan that does not discriminate against troopers who are disabled in the line of duty, based on the trooper's years of service to the Department; 4) provide a plan that is revenue neutral and that encourages the Department to bring back marginally disabled troopers back into the work force; and 5) provide tax exempt benefits like the local police and firefighter disability plans. In addition, Mr. Buschmann also asked the PMOC to consider proposing legislation that would establish a disability plan similar to the three class system used by local police and fire departments under PERF.

Mr. Buschmann next addressed the fiscal considerations of the ISPA proposed Disability Plan. The Plan would provide that when a trooper becomes disabled, the Department would hold open that position. The budgetary salary allotted for that position would be used to pay the

disability benefits. Continuing, Mr. Buschmann said that since the full salary of each trooper had already been budgeted, no additional funds would be needed to pay for the benefits. Medical expenses would be paid from the Pension Trust, as is currently done.

Mr. Buschmann then briefly described the line of duty disabilities of Trooper Johnson and Trooper Wylie.

The Chair next recognized Mr. Les Miller, Special Counsel to the Superintendent of the State Police. Mr. Miller told the PMOC that the State Police are seeking to improve benefits to the extent that it is fiscally possible. He said that the State Police is working with the Indiana State Police Alliance. Mr. Miller distributed a document which delineated the Pre-1987 Disability Plan and the 1987 Disability Plan Exhibit E. Mr. Miller said that there will be some differences from what was distributed by Mr. Buschmann. Mr. Miller stated that the State Police is working on the tax exemption issue for line of duty benefits with Ms. Braitman. Mr. Miller then introduced Captain Phil Parker, Director of State Police Personnel and Pensions.

Capt. Parker provided an update on Trooper Johnson who had been severely wounded in the line of duty. Capt. Parker made the following points: 1) Trooper Johnson would be on full pay for one year; 2) first two years of disability is paid at 70% of a third year trooper salary, with 20% paid from CIGNA Insurance Co. and 50% paid from the State Police Benefit Fund minus pension contribution; 3) the Pension contribution would be reimbursed by the CIGNA Insurance Co. Capt. Parker said that as a trooper moves through the State Police Pay Matrix, the disability benefit increases. The disability benefit remains until 25 years of service, then the retirement benefit begins. Capt. Parker said that the health and life insurance benefits are paid in full. Trooper Johnson might qualify for federal benefits, as well. Capt. Parker then reviewed the current disability plan. He said that Superintendent Mel Carraway supports the State Police employees and that health care benefit premiums decreased last year. Capt. Parker commented on the proposals submitted by Mr. Buschmann for the ISPA. He said: 1) Class 3 non-duty related disability adversely affects troopers. Capt. Parker said that the current plans are more beneficial to non-line-of-duty disability; 2) The fiscal impact of the ISPA proposals is costly. Capt. Parker told the PMOC that the COLA proposal of the ISPA increases the unfunded accrued liability of the State Police Pension Plans by an estimated \$1.7 million and that the ISPA proposal for the Disability Plan increases in the unfunded accrued liabilities by an estimated \$6.4 million.

Senator Harrison next recognized Mr. Charles Williams, representing the Indiana Troopers Association. Mr. Williams discussed how Trooper Johnson will be paid. He said that 20% is annuity funded, not funded by the State Police. After the first year, the trooper must live on 50% salary, minus the pension contribution of nine percent, minus taxes. Mr. Williams said the benefits are fully paid at the level on the date of disability. Mr. Williams said that the funding of the disability is through salary and that State Police non-civilian personnel are not eligible for Social Security. Mr. Williams then suggested that the Department should address the people currently on disability and try to bring them back to work. He said that he was not encouraged by the Department. Mr. Williams told the PMOC that there were raises given on disability benefits for a few years when trooper salaries were increased, but he said they were subsequently stopped by then Superintendent Lloyd Jennings. Commenting on the proposed COLA, Mr. Williams noted that he wants the COLA to be equal to PERF and TRF. He said that he is worried about the bottom-end retirees.

The Chair recognized Mr. Don Cox, a retired trooper and President of the Pioneer Association. Mr. Cox commended Senator Harrison and the PMOC for studying the issues affecting the State Police. He said that since 1987, the Consumer Price Index (CPI) has increased 40%, but benefits have increased only six percent. Mr. Cox said that the troopers do not receive Social Security. He also said that he recognizes the State's fiscal situation, but retired troopers merit

consideration.

Senator Harrison closed the meeting by announcing that the next PMOC meeting would be held on Wednesday, October 17, at 10:00 a.m. The PMOC will consider: 1) bill drafts on the PERF/TRF issues; 2) State Police issues; 3) County Coroner issues with PERF; 4) Judges Retirement System; 5) Update on the Funds' status; 6) DROP plans from Tom Miller.

Before adjourning the meeting, Senator Harrison requested a moment of silence for the September 11 losses.

Senator Harrison adjourned the meeting at 12:15 p.m.